

The GoWest Credit Union Association is pleased to provide our quarterly analysis of regulatory developments at the state and federal levels.

Thank you to the many GoWest credit union leaders who supported advocacy efforts to change the NCUA's exam manual eliminating the requirement to issue a DOR based on the result of the NEV test. This was an important change, and GoWest credit unions' direct, unwavering advocacy made a difference.

A lot has happened on the regulatory front this past quarter. GoWest credit unions hosted both NCUA Chairman Todd Harper and Board Member Rodney Hood for meetings in our region, and a GoWest Hike the Hill delegation attended NCUA's first in-person board meeting since the pandemic began. In addition, an outstanding Idaho credit union leader announced a run for the FHLB Des Moines Board, and a strong candidate from Wyoming has submitted credentials for consideration to serve on the CFPB's Credit Union Advisory Council.

Colorado, Oregon, and Washington are wrapping up State Issues Work Group processes which will feed into the development of comprehensive advocacy agendas. In Oregon, rulemaking to reduce state-chartered credit union assessments is underway.

We have also seen significant changes on the economic front where conditions are evolving quickly. Many credit unions are facing liquidity challenges and are turning to borrowings and increasing rates on deposits, something we have not seen much of over the past 15 years. These developments are resulting in some significant shifts in regulators' focus areas.

We will report in depth on the topics discussed above as well as on a number of other key issues, including:

Fed Corner & FedNow	CDFI Update	NCUA and CFPB Update	Around the States
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FED CORNER

The Federal Reserve interest rate hikes seem to be having the desired effect of reducing inflation. The CPI readings for July and August were 0% and .01% percent, respectively.

Even with that data, the Fed continued to raise interest rates moving them up an additional 75 basis points in September and indicating that additional hikes could be on the horizon. The Fed's positioning has many watchers believing that they might continue to move rates up until they see some deflationary readings.

While savers are reaping the benefits of rising rates on deposits, such as 2.8% interest at VIO Bank to 3% interest at Robinhood, rising rates are having the opposite effect on financial institutions which are struggling to maintain the low cost of funds associated with deposit accounts over the past decade.

Some observers believe that the FED may slow the pace of rate hikes or stop altogether, particularly if the CPI numbers for September are in line with expectations of mild price regression. They point to the fact that year-to-date prices have increased 5.4% which is in line with or below what the Federal Open Market Committee members predict through the end of the year -- an indicator that they may slow the pace of rate hikes. In addition, some forecasters are predicting that we may see some signs of deflation across several different asset classes including housing, commercial real estate, and potentially the CPI, as well as other key sectors. In fact, many see recent guidance from financial regulators around commercial loan workouts as a sign that commercial office lending could be in for a rocky ride.

From a regulatory perspective, credit unions should expect an increased focus on balance sheet testing in 2022, as regulators look at the impacts of rising interest rates. Of particular interest will be exposure to commercial loans and long-term assets such as bonds, mortgage-backed securities, and longer-term fixed mortgages. In addition, credit unions are reporting having their deposit analysis and assumptions looked at more closely than ever during recent exams. Credit unions should expect an increased regulatory focus on hedging and funding strategies. Moreover, regulators will also continue to review net-worth ratios and available capital levels. In addition, we expect an added focus on liquidity testing and deposit analysis.

FEDNOW

GoWest hosted a speaker at our Economic Forum this summer, to share details about the FedNow Instant Payments System which is being piloted by all corporate credit unions as well as a handful of GoWest credit unions directly. We will also have a FedNow Speaker at the annual MAXX Convention later this month to share the latest details.

At the Economic Forum, credit unions were informed that the Instant Payments System is ahead of schedule and expected to be officially deployed in early 2023. It has the potential to change the payments landscape with expected wide adoption.

The system is expected to have many attractive features, including speed, efficiency, security, and trust, without overhauling or drastically changing the structures or systems currently in place. The FedNow service will allow instant payment services to be utilized by financial institutions, regardless of size, in real time throughout the day. While FedNow will transfer dollars instantaneously, it is not expected to be accessible to the public.

However, since we last reported on this topic, the Fed released a draft framework that provides a pathway for non-federally insured institutions to get a master account with the Fed which would subsequently make them eligible for services such as FedNow.

Federal Reserve Accounts Draft Framework - [Federal Reserve News Release](#)

CDFI

Treasury's Community Development Financial Institutions (CDFI) Program – The Treasury CDFI program allows credit unions to better serve underserved communities. It offers targeted grants that are designed to achieve social outcomes. Increased funding during the pandemic led to additional investments in CDFI-certified credit unions including secondary capital investments and non-competitive grant awards. The GoWest Foundation has resources to assist credit unions that are interested in becoming CDFI.

Advocacy Efforts

A few credit unions within the GoWest footprint and hundreds of other credit unions nationwide were put into “cure” status which suspended their CDFI status as they addressed questions related to their certification. Thanks to significant advocacy work, the CDFI Fund recently announced that CDFIs with pending Annual Certification and Data Collection Reports submissions or cure period requirements are considered to be Certified CDFIs, until such time as the CDFI Fund provides official notification of a change or termination in their certification status. This change will allow credit unions to maintain eligibility for grants as well as allow credit unions to close on Emergency Capital Investment Program (ECIP) awards.

ECIP

Treasury recently released the dollar amounts GoWest CDFI credit unions received through the ECIP. The press release confirmed that GoWest CUs received more than \$200M in ECIP awards. The association estimates that this investment creates nearly \$2.75B in additional lending capacity for our CDFI-certified CUs to support their most vulnerable members. The dollars are issued as secondary capital with up to thirty-year terms and two years of zero percent interest followed by a minimum rate of .5% and maximum interest rate of 2%.

Technical Assistance Awards

In September five GoWest member credit unions were awarded a total of \$625 K in Technical Assistance Awards through the CDFI program. The grants are designed to empower credit unions to grow, achieve organizational sustainability, and contribute to the revitalization of low-income and distressed communities nationwide. CDFIs commonly use Technical Assistance Awards to analyze which products and services are appropriate for their target markets, develop lending policies and procedures, and build staff lending capacity. More established CDFIs also use Technical Assistance Awards to provide new products, to serve current target markets in new ways, or to enhance the efficiency of their operations. These grants are available to credit unions that are not CDFI certified yet but are working toward certification within three years.

Financial Assistance Awards

We are expecting several GoWest credit unions to receive Financial Assistance Awards this fall, and some to receive Equitable Recovery Awards when they are announced in 2023.

NCUA

During the third quarter, NCUA Board Chairman Todd Harper was in Colorado for some credit union visits. One of his stops included the relatively newly- chartered **Clean Energy Credit Union** where he heard about the work they are doing to help their members move toward energy independence through renewable energy options. Board Member Hood also visited the GoWest region and spoke at our Executives Conference at Skamania where he shared the work that the NCUA was doing to update the exam manual related to NEV exam procedures. Most recently, a group of GoWest member credit union executives participating in the Fall Hike the Hill, attended the September NCUA Board meeting which was the first in-person board meeting in over 18 months.

During the third quarter, we saw the NCUA issue a number of new rules that our members have been advocating for (listed below), as well as a corporate distribution which helped many GoWest credit unions’ bottom lines. We also noted significant change to the NCUA Share Insurance Fund position that could ultimately lead to distributions from the Share Insurance Fund to credit unions.

This is an important change from the past couple of years where the board was considering the possibility of a special assessment.

Examination Manual Change

Highly anticipated guidance revisions came from the NCUA regarding its Net Economic Value (NEV) Test, which examiners use to assess a credit union's interest rate risk – from low to extreme. The revised guidance eliminates the prescriptive requirements related to the NEV test that previously may have required examiners to issue unnecessary Documents of Resolution (DOR). In the guidance, it was noted that “due to the changing economic and interest rate environments during 2022, the NCUA reviewed the parameters and risk classifications of the NEV Test and overall IRR supervisory framework. As a result of this review, several improvements were made.” The GoWest regulatory affairs team and several member credit unions actively participated in conversations with NCUA on this topic.

NCUA Board Briefings

Share Insurance Fund

In May we reported that some signs point to deposits running off which would result in a natural increase in the equity ratio and make the need for special assessments less likely going forward. As of the September SIF update, the consensus is that there will be a deposit runoff which will likely result in the equity ratio increasing from 1.26 to over 1.30 percent by year-end. In addition, the number of CAMEL 4/5 credit unions continued to decrease despite economic headwinds, tightening liquidity, and decreasing asset values, highlighting the fact that overall credit unions are very well positioned. The association continues to encourage the NCUA to reduce the normal operating level of the SIF to 3% which would increase the likelihood of a SIF distribution.

Read more about the [Share Insurance Fund Briefing](#)

Mid-Session Budget Review

The NCUA may reduce the operating fees that they charge federally chartered credit unions due to a projected budget surplus effectively reducing the assessment of federal credit unions. Staff reported an \$18 million budget surplus, due in large part to lower travel and staffing costs than anticipated. In fact, the travel budget in 2022 is running about 50% of what was projected as examiners continue to perform much of their work offsite.

However, travel costs have risen rapidly due to inflation and the NCUA has returned to an onsite exam posture. GoWest strongly supports a permanent reduction of the onsite examiner footprint, having demonstrated offsite exam proficiency over the past three years. This will result in both travel savings for the agency and reduced operational disruptions at credit unions, should the NCUA commit to smaller exam footprints going forward.

Read more about the [Budget Briefing](#)

NCUA Proposed Rules

FCU Member Expulsion

GoWest and member credit unions have championed revisions to member expulsion at the state and federal level, to protect credit union staff and members from abusive behavior. While we had been successful revising our state laws and bylaws, federal statute restricts federal

credit unions from expelling members who had perpetrated a fraud or were abusive to staff or other members. However, through advocacy efforts by GoWest credit union advocates and others across the industry, the Credit Union Governance Modernization Act was enacted as part of the omnibus package and signed into law in March of 2022. The law directed the NCUA to modernize the expulsion rules so that a member may be expelled by a 2/3 vote of the board rather than a 2/3 vote of the membership.

Comments are due – 12/2/22

Read more about the [**Proposed Member Expulsion Rule**](#)

Subordinated Debt

The NCUA is proposing an adjustment to the subordinated debt rule to allow for longer terms of 30 years. The current rule restricts the maturity of Notes to a minimum of five years and a maximum of 20 years. The current rule also terminates Regulatory Capital treatment for grandfathered secondary capital after a period of 20 years.

The Board is proposing revisions to permit Regulatory Capital treatment for a period of 30 years. This change would align the Regulatory Capital treatment with the maximum permissible maturity for secondary capital issued under the ECIP. This is a change that GoWest has advocated for.

Comments are due – 10/28/22

Read more about the [**Proposed Subordinated Debt Rule**](#)

Cyber Incident Notification Requirements

Due to the increased frequency and severity of cyberattacks in the financial services sector, the NCUA Board is proposing to require a federally insured credit union that experiences a reportable cyber incident to report it to the NCUA as soon as possible and no later than 72 hours after the federally insured credit union reasonably believes that it has experienced a reportable cyber incident. This notification requirement provides an early alert to the NCUA and does not require credit unions to provide a detailed incident assessment to the NCUA within the 72-hour time frame.

The proposed rule defines a cyber incident as an occurrence that actually or imminently jeopardizes, without lawful authority, the integrity, confidentiality, or availability of information. The rule aligns with the statute.

Based on feedback and input from GoWest Credit Union leaders, the Association drafted a letter asking the NCUA to consider some changes to the proposed rule.

Read more about the [**Proposed Rule**](#)

Read the [**GoWest Association Letter**](#)

NCUA Final Rules

Asset and Supervision Threshold for Determining the Appropriate Supervisory Office

The final rule changes the asset threshold used to determine when a consumer credit union comes under the enhanced supervision of the NCUA's Office of National Examinations and

Supervision (ONES). Under the final rule, credit unions with more than \$15 billion in total assets will be supervised by ONES. Credit unions with between \$10 billion and \$15 billion in total assets will continue to be supervised by their appropriate regional office. However, credit unions currently under ONES' supervision under \$15 billion in assets would continue to be supervised by the ONES. The final rule would not alter any other regulatory requirements for credit unions covered under these regulations.

ONES began operations in 2013 and oversees the largest and most complex credit unions in the credit union system. It also supervises the corporate credit union system.

This rule results in significant budget savings for the NCUA. Had this rule not been adopted it would have resulted in a significant reallocation of personnel, training, and additional staff. By increasing the ONES threshold, the NCUA also avoids organizational disruptions. While the rule does not alter any regulations it does give credit unions the consistency of remaining under regional supervisory authority.

Read: [**Final Rule**](#)

NCUA Grants

Six Go West member credit unions received grants totaling \$88.7K that were announced in September through the NCUA's Community Development Revolving Loan Fund (CDRLF) grant round. The grants were for a variety of purposes including strengthening cybersecurity, expanded outreach efforts, and staff development. These small-dollar grants have very few reporting requirements and can be applied for in as little as 15 minutes once credit unions have completed the steps that allow them to accept federal dollars. The grants are available to Low-Income Designated credit unions. If your credit union is not low-income designated and is interested in getting the designation, the process is relatively quick. Please contact the [GoWest Foundation](#) if you are interested in learning more.

AMAC Corporate Distributions

On August 29, the NCUA distributed more than \$82 Million in dividends to former SW Corporate shareholders. Last year the NCUA completed the capital distributions to SW capital holders making them whole. Members of Southwest Corporate should have received a liquidating dividend equivalent to 0.90% of their total shares in the corporate at the time of liquidation. We anticipate additional distributions will be made in 2023.

CECL Tool

In September, the NCUA released a long-awaited simplified Current Expected Credit Loss (CECL) tool designed for credit unions under \$100 M to determine the allowance for loan loss reserves under CECL. The NCUA hosted a webinar on October 12 to demonstrate the tool and answer questions.

CFPB – The Consumer Financial Protection Bureau's funding structure is under fire with the U.S. Chamber of Commerce filing a lawsuit against the bureau that challenges the agency's funding structure, arguing that it violates the Constitution's appropriations clause because CFPB's budget comes from the Federal Reserve rather than congressional appropriations.

The Chamber along with the national banking trades filed a separate suit arguing that the recent change in the CFPB's examination manual that allows it to examine entities for discriminatory practices under Unfair, Deceptive, or Abusive Acts or Practices (UDAAP) authority exceeds their statutory authority and specifically violates the Administrative Procedures Act. The suit argues that the change in the examination manual constitutes a rule change, making it subject to a notice and comment period. The change in the exam manual would allow the CFPB to hold financial institutions accountable for disparate impact as a UDAAP violation.

Proposed Rules

The Bureau currently does not have any proposed rules open for comment, but is working to develop a couple of statutorily required rules including:

- **Consumer Access to Financial Records** - which will likely be issued as an Advanced Notice of Proposed Rule Making and is required by the Dodd-Frank Act
- **Automated Valuation Models** - We expect a proposed rule in the fourth quarter. The Bureau formed a panel on the Small Business Regulatory Enforcement Fairness Act which included a number of GoWest Leaders. The rule is required by the Dodd-Frank Act and will be issued as a multi-agency rule.
- **Property Assessed Clean Energy Financing** - The proposal is statutorily required under section 307 of the Economic Growth, Regulatory Relief, and Consumer Protection Act and will require the ability to repay standards on PACE loans.
- **Final Rules** - We are expecting the Small Business Lending Data Collection Under the Equal Credit Opportunity Act (HMDA for Business) rule within the next six months. The rule is statutorily required under Dodd-Frank and the Bureau is court-mandated to finish rulemaking in a timely manner.

CFPB Credit Union Advisory Committee - The GoWest Credit Union Association is hopeful to have representation once again on the Credit Union Advisory Committee. We have historically been well represented having had two committee chairs as well as several committee members. We have strong applicants this year and look forward to seeing the results of the selection process. If you are interested in serving on this or another federal regulatory committee, please let our regulatory team know of your interest.

AROUND THE STATES

NASCUS

GoWest continues to have strong representation on the National Association of State Credit Union Supervisors (NASCUS) Board. During the NASCUS State System Summit, several leaders from the GoWest region were elected to key positions serving this important system partner, which advocates for a vibrant dual charter system.

Janet Powell, Chief of Regulation and Supervision-Credit Unions for the Oregon Division of Financial Regulation, took the gavel as Chair of NASCUS' Regulator Board. Amy Hunter, Director of Credit Unions for Washington's Department of Financial Institutions, was also elected to serve on the Regulator Board. They will serve three-year terms.

In addition, two GoWest credit union leaders will serve for the next year on NASCUS' Credit Union Advisory Council. This council advises the Regulator Board on issues of importance to credit unions. Amy Nelson, CEO of Portland-based Point West Credit Union, will serve as Secretary of the Council, while Mike Williams, President of Colorado Credit Union in Littleton, and Immediate Past Chair, continues service. These appointments and your engagement in advocacy ensure our

region's voices will be impactful in shaping a better operating environment for credit unions. Brian Knight, NASCUS President and CEO will be presenting and in attendance at MAXX. Knight will be joined by John Kohloff, the former Michigan and Texas credit union regulator who is now SVP of Policy and Supervision at NASCUS. Credit unions interested in learning more about NASCUS should reach out to our regulatory team.

Colorado



Colorado State Issues Working Group

The Colorado State Issues Working Group has nearly completed its review of the state Credit Union Act and is in the process of developing policy recommendations that once approved by the CO Governmental Affairs Committee and the GoWest Board, will guide our recommendations during the CO Sunset review process. The comprehensive list of potential updates that come out of the State Issues Working Group will serve as a guide to Colorado advocacy priorities for the next 2-3 years.

Oregon



Assessment Rule

The Oregon Department of Consumer and Business Services (DCBS), Division of Financial Regulation (Division), has convened an advisory committee on proposed changes to the Oregon Administrative Rules (OAR) governing credit union assessments. Specifically, the Division is considering amendments to OAR 441-710-0500 to make credit union fees more equitable and to ensure that Oregon chartered credit unions pay fees that reasonably reflect the costs of supervision.

Since March 2011, the average assets have continued to increase due to normal growth and the conversion of three credit unions in 2014 and 2015 from federal credit union charters to Oregon state charters. The annual average assets of 18 credit unions totaled \$11.1 billion as of December 31, 2013, in contrast to 20 credit unions totaling \$24.6 billion as of December 31, 2020. These changes have prompted the need to revise the assessment fee schedule.

The Committee will meet virtually on Monday, October 31, 2022, from 1:30-2:30 pm.

Virtual CEO Outreach - The Division of Financial Regulation will host a virtual CEO Outreach on Friday, December 2, from 1:30 -3:30. GoWest Credit Union Association representatives will be on the agenda providing an election recap.

Idaho



FHLB Board Seat

We are asking for all Idaho Federal Home Loan Bank voting members to support electing Brian Berrett to the Idaho seat on the FHLB Des Moines Board. Brian is the Chief Financial Officer at Idaho Central Credit Union. With credit union support, Brian will help not only Idaho's credit unions, but represent the CU voice for the 13 states and three U.S. Pacific Territories this FHLB serves. Currently of 22 board members, only two are from the Credit Union Movement. Brian brings three decades of financial services experience, all in the CU space. His credit union uses many FHLB products and services, so he understands what credit unions need from them, and he previously served on a credit union advisory council with the FHLB. If elected, Brian will begin board service in January.

Voting is currently open with balloting ending Oct. 28.

If you are a voting member, please vote your shares as soon as possible.

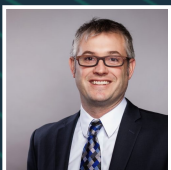
Wyoming



The association will be meeting with leadership from the Wyoming Department of Financial institutions in November. We anticipate discussing credit union legislative priorities and building support for a future legislative agenda.

See you at MAXX

Finally, we look forward to seeing you at **MAXX Convention** in Spokane Oct. 25-27. There are many relevant keynotes and breakout sessions planned, including the opportunity to hear from Blockchain and cryptocurrency experts, and regulatory panels planned for both state and federal chartered credit unions. See the full agenda [here](#).



John Trull

Vice President, Regulatory Advocacy

Direct: 503.350.2209

jtrull@gowest.org

